

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

Willard Public Library

**Financial Report
with Supplemental Information
June 30, 2006**

Willard Public Library

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Independent Auditor's Report

To the Board of Trustees
Willard Public Library

We have audited the accompanying financial statements of the governmental activities and each major fund of the Willard Public Library (the "Library") as of and for the year ended June 30, 2006 which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Willard Public Library as of June 30, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Willard Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

August 16, 2006

A member of



A worldwide association of independent accounting firms

Willard Public Library

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include information that presents two different views of Willard Public Library (the "Library"):

- The first series of columns of the financial statements includes information on the Library's various funds under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The library as a whole financial statement columns provide both long-term and short-term information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Willard Public Library

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The table below compares key financial information in condensed format with comparison to the prior year:

	2006	2005
Assets		
Current assets	\$ 4,202,390	\$ 4,046,318
Capital assets	5,876,973	6,077,049
Total assets	10,079,363	10,123,367
Liabilities		
Long-term debt	356,000	340,000
Other liabilities	264,652	284,154
Total liabilities	620,652	624,154
Net Assets		
Invested in capital assets - Net of debt	5,876,973	6,077,049
Unrestricted	3,581,738	3,422,164
Total net assets	<u><u>\$ 9,458,711</u></u>	<u><u>\$ 9,499,213</u></u>
Revenue		
Property taxes	\$ 3,878,487	\$ 3,678,215
Other	1,695,263	1,232,873
Total revenue	5,573,750	4,911,088
Expenses - Library services	5,613,513	5,352,494
Other Uses - Loss on sale of equipment and costs associated with defeasance of debt	(739)	(72,297)
Change in Net Assets	<u><u>\$ (40,502)</u></u>	<u><u>\$ (513,703)</u></u>

Willard Public Library

Management's Discussion and Analysis (Continued)

Current Year Highlights

As it has for the past decade, Willard Public Library continued to improve its overall use by Battle Creek area patrons. Circulation of library items was once again up and we are closely approaching the 1,000,000 items per year circulation point, an increase of more than 475,000 items in the last seven years. We continue to see growing interest in non-print library resources, such as electronic books, music CDs, movies, and computer resources. Combined, our users view pages on our websites almost 250,000 times a month while searching our catalog about 40,000 times every month.

Program attendance was up during the last year. The Library collaborated with a number of community organizations in the presentation of several special events, including visits by nationally known authors Mitch Albom, Catherine Ryan Hyde, and Harlan Coben. Additionally, the Library took the lead in organizing a broad community effort to promote literacy as part of the "Battle Creek Reads" project, a "One Book, One Community" effort.

Library Budgetary Highlights

For the second year in a row, the City of Battle Creek captured close to \$600,000 in funds directed by the voters to be used for the operation of Willard Public Library. This resulted in a total two-year capture of over \$1.1 million. As a result, the Library was again forced to draw from its fund balance in order to maintain its current level of service during 2005-2006.

Next Year's Millage Rates

The Library's millage rate will remain at 2.0 for the next fiscal year. The Library will be able to balance its budget without the use of fund equity, as long as the City honors its commitment to stop diverting library funds for its own use. Our goal is to provide a quality library program, with high demand and service expectations, without seeking additional millage.

At the end of this year, the Library has stabilized its program with no additional tax dollars needed, planned for solid program growth based on user demand and strategic analysis, and projected a positive fiscal picture for at least the near future.

Willard Public Library

Balance Sheet - Statement of Net Assets June 30, 2006

	Individual Library Funds					Library as a
	Special Revenue Funds					Whole
	General Fund	NPA Fund Nonmajor	Endowment Fund	Balance Sheet - Modified Accrual	Adjustments (Note 2)	Statement of Net Assets - Full Accrual
Assets						
Cash and cash equivalents (Note 3)	\$ 2,885,153	\$ 419,833	\$ 527,865	\$ 3,832,851	\$ -	\$ 3,832,851
Receivables	222,755	15,605	1,670	240,030	-	240,030
Prepaid assets	127,346	2,163	-	129,509	-	129,509
Due from other funds	2,163	-	-	2,163	(2,163)	-
Capital assets - Net of accumulated depreciation (Note 4)	-	-	-	-	5,876,973	5,876,973
Total assets	\$ 3,237,417	\$ 437,601	\$ 529,535	\$ 4,204,553	5,874,810	10,079,363
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 58,945	\$ 651	\$ -	\$ 59,596	-	59,596
Accrued liabilities	205,056	-	-	205,056	-	205,056
Due to other funds	-	2,163	-	2,163	(2,163)	-
Deferred revenue	-	434,787	-	434,787	(434,787)	-
Long-term debt - Current portion	-	-	-	-	-	-
Total current liabilities	264,001	437,601	-	701,602	(436,950)	264,652
Long-term Debt - Net of current portion (Note 5)	-	-	-	-	356,000	356,000
Total liabilities	264,001	437,601	-	701,602	(80,950)	620,652
Fund Balance/Net Assets						
Fund balances - Reserved for prepaid expenses	127,346	-	-	127,346	(127,346)	-
Unreserved fund balances:						
Designated for equipment purchases	750,000	-	-	750,000	(750,000)	-
Designated for sick payable	340,000	-	-	340,000	(340,000)	-
Designated for reserve fund	780,630	-	-	780,630	(780,630)	-
Undesignated	975,440	-	529,535	1,504,975	(1,504,975)	-
Total fund balance	2,973,416	-	529,535	3,502,951	(3,502,951)	-
Total liabilities and fund balance	\$ 3,237,417	\$ 437,601	\$ 529,535	\$ 4,204,553		
Net Assets						
Invested in capital assets - Net of debt					5,876,973	5,876,973
Unrestricted					3,581,738	3,581,738
Total net assets					\$ 9,458,711	\$ 9,458,711

Willard Public Library

Statement of Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2006

	Individual Library Funds				Library as a	
	Special Revenue Funds			Revenues and Expenditures - Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual
	General Fund	NPA Fund Nonmajor	Endowment Fund			
Revenue						
Taxes	\$ 3,878,487	\$ -	\$ -	\$ 3,878,487	\$ -	\$ 3,878,487
State sources	140,651	-	-	140,651	-	140,651
Penal fines	286,387	-	-	286,387	-	286,387
Fees and book fines	176,017	-	-	176,017	-	176,017
Interest	137,370	14,649	15,696	167,715	-	167,715
Local contributions and contracts	199,376	359,597	68,857	627,830	296,663	924,493
Total revenue	4,818,288	374,246	84,553	5,277,087	296,663	5,573,750
Expenditures/Expenses						
Capital expenditures	231,721	-	-	231,721	(64,351)	167,370
Program services - Audiovisual, books, and periodicals	806,218	-	-	806,218	(442,828)	363,390
Support services - General administration:						
Personnel	3,172,794	122,586	-	3,295,380	16,000	3,311,380
Office supplies	102,214	-	-	102,214	-	102,214
Repairs and maintenance supplies	22,821	-	-	22,821	-	22,821
Purchased services	263,173	251,660	-	514,833	-	514,833
Communications	82,954	-	-	82,954	-	82,954
Insurance	38,878	-	-	38,878	-	38,878
Public utilities	135,584	-	-	135,584	-	135,584
Depreciation	-	-	-	-	706,516	706,516
Repairs and maintenance	167,573	-	-	167,573	-	167,573
Total support services - General administration	3,985,991	374,246	-	4,360,237	722,516	5,082,753
Total expenditures	5,023,930	374,246	-	5,398,176	215,337	5,613,513
Excess of Revenue Over (Under) Expenditures	(205,642)	-	84,553	(121,089)	81,326	(39,763)
Other Financing Uses - Loss on disposal of capital assets	-	-	-	-	(739)	(739)
Change in Fund Balance/ Net Assets	(205,642)	-	84,553	(121,089)	80,587	(40,502)
Fund Balance/Net Assets - July 1, 2005	3,179,058	-	444,982	3,624,040	5,875,173	9,499,213
Fund Balance/Net Assets - June 30, 2006	<u>\$ 2,973,416</u>	<u>\$ -</u>	<u>\$ 529,535</u>	<u>\$ 3,502,951</u>	<u>\$ 5,955,760</u>	<u>\$ 9,458,711</u>

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of Willard Public Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Library is located in the City of Battle Creek, Michigan and is governed by a five-member board. The Library is primarily funded through a tax levy, fines, fees, and charitable donations. Revenue is used to operate and staff the Library. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. The Library is a District Library formed pursuant to the District Library Establishment Act (1989 Public Act 24) by an agreement between the school districts of Battle Creek, Harper Creek, Lakeview, and Pennfield. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

General Fund - The General Fund is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Endowment Fund - The Special Revenue Endowment Fund is used to account for revenues received for a specific purpose held in an endowment account.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the Library as a whole full accrual financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Willard Public Library

Notes to Financial Statements June 30, 2006

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Capital Assets - Capital assets are defined by the Library as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Building improvements, furniture and fixtures, equipment, library books, periodicals, etc., are depreciated using the straight-line method over the following useful lives:

Buildings	20-50 years
Building improvements	10-20 years
Furniture and fixtures	5-10 years
Library books, periodicals, etc.	10 years
Land improvements	10-30 years
Equipment	5-10 years

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 15 with the final collection date of February 28 before they are added to the county tax rolls.

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended June 30, 2006 when the proceeds of the levy are budgeted and available for the financing of operations.

Willard Public Library

Notes to Financial Statements June 30, 2006

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Total fund balances and the net change in fund balances of the Library's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to net assets and net change in fund balances to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 3,502,951
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources and are not reported in the funds	5,876,973
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Deferred revenue for revenue received but not earned	434,787
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Compensated absences are included as a liability	<u>(356,000)</u>
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Total Net Assets - Full Accrual Basis	<u>\$ 9,458,711</u>
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Net Change in Fund Balances - Modified Accrual Basis	\$ (121,089)
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Amounts reported in the statement of activities are different because:

Capital outlay is not an expense of the current period	507,179
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Capital costs are allocated over their estimated useful lives as depreciation	(706,516)
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Loss on disposal	(739)
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Deferred revenue recorded for revenue received but not earned	296,663
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Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	<u>(16,000)</u>
--	-----------------

Change in Net Assets of Governmental Activities	<u>\$ (40,502)</u>
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Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated three banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$3,742,552 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Library places no limit on the amount the Library may invest in any one issuer.

Willard Public Library

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Assets not being depreciated - Land	\$ 980,185	\$ -	\$ -	\$ 980,185
Depreciable capital assets:				
Furniture and fixtures	957,114	11,032	(10,718)	957,428
Equipment	980,136	9,991	(8,250)	981,877
Building and building improvements	2,237,898	37,457	-	2,275,355
Land improvements	186,621	5,871	-	192,492
Books, periodicals, etc.	5,450,676	442,828	-	5,893,504
Subtotal	9,812,445	507,179	(18,968)	10,300,656
Less accumulated depreciation:				
Furniture and fixtures	543,844	85,814	(10,718)	618,940
Equipment	579,784	142,698	(7,511)	714,971
Building and building improvements	283,963	97,313	-	381,276
Land improvements	43,487	11,739	-	55,226
Books, periodicals, etc.	3,264,503	368,952	-	3,633,455
Subtotal	4,715,581	706,516	(18,229)	5,403,868
Net capital assets being depreciated	5,096,864	(199,337)	(739)	4,896,788
Net capital assets	\$ 6,077,049	\$ (199,337)	\$ (739)	\$ 5,876,973

Capital assets, including library books, are recorded at cost. Depreciation expense was \$706,516 for the year ended June 30, 2006.

Note 5 - Long-term Debt

The Library's employees are granted 12 sick days per year. Unused sick leave may be accumulated up to certain limits. Employees are paid for unused sick leave upon retirement. A sick leave benefit of \$356,000 is recorded at June 30, 2006.

At June 30, 2006, outstanding general obligation bonds of \$2,372,340 are considered to be defeased.

Willard Public Library

Notes to Financial Statements June 30, 2006

Note 6 - Battle Creek School District

The building and real estate in downtown Battle Creek used by the Library are being leased from the School District of the City of Battle Creek for \$1 per year, as stated in the agreement entered into with the School District in 1994. The fair market value of this lease is not known.

Note 7 - Defined Benefit Pension Plan

The Library participates in two defined benefit pension plans, the Michigan Public School Employees' Retirement System (MPSERS) and the Municipal Employees' Retirement System of Michigan (MERS). The Library was previously included as part of the School District of the City of Battle Creek, Michigan. Employees formerly employed by the School District were eligible to continue participation in the MPSERS plan. Employees hired after the District Library was formed are eligible to participate in the MERS plan.

Michigan Public School Employees' Retirement System

Plan Description - The Michigan Public School Employees' Retirement System (MPSERS) is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. The MPSERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the System result from the effects of implementing the School Finance Reform Act. Under these procedures, the Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals range from 14.87 percent to 16.34 percent for the period from July 1, 2005 through June 30, 2006. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3.0 percent to 4.3 percent of gross wages.

The Library's contributions to the MPSERS plan for the years ended June 30, 2006, 2005, and 2004 were \$180,990, \$159,361, and \$147,150, respectively.

Note 7 - Defined Benefit Pension Plan (Continued)

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the Library's total contribution to the MPSERS plan discussed above.

Municipal Employees' Retirement System of Michigan

Plan Description - The Municipal Employees' Retirement System of Michigan (MERS) is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system. The MERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, less a 4 percent contribution by employees. The Library's contribution rates ranged from 5.93 percent to 6.68 percent for the period from July 1, 2005 through June 30, 2006 of the covered payroll to the plan.

Annual Pension Cost - For the year ended June 30, 2006, the Library made \$55,632 of contributions to the plan, based on the actuarial valuation. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, and (c) 0 percent to 4.2 percent per year attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over a 30-year period.

Willard Public Library

Notes to Financial Statements June 30, 2006

Note 7 - Defined Benefit Pension Plan (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension cost (APC)	\$ 51,916	\$ 53,249	\$ 55,632
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 385,841	\$ 517,723	\$ 649,150
Actuarial accrued liability AAL (entry age)	\$ 502,433	\$ 659,228	\$ 752,735
Unfunded (overfunded) AAL (UAAL)	\$ 116,592	\$ 141,505	\$ 103,585
Funded ratio	77%	79%	86%
Covered payroll	\$ 806,950	\$ 960,286	\$ 886,408
UAAL as a percentage of covered payroll	14.4%	14.7%	11.7%

Note 8 - Risk Management

The Library is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library participates in the Middle Cities Risk Management Trust and the Michigan Municipal League (risk pools) for claims relating to the above.

The shared-risk pool programs in which the Library participates operate as a common risk-sharing management program for school districts and municipalities in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Funds Held by the Battle Creek Community Foundation

The Library is the beneficiary of endowment funds at the Battle Creek Community Foundation that are considered permanent endowments to benefit the Library. The endowments are within the Foundation and not part of the Library's General Fund. Investment earnings are reinvested into the Fund and amounted to \$55,429 for the year ended June 30, 2006. The amount of the endowment funds held at Battle Creek Community Foundation in the Campbell Fund, Denman Fund, and Willard Library Fund approximates \$972,000.

During the year, the Library withdrew past earnings on principal from the endowment funds held at the Battle Creek Community Foundation totaling \$7,915 and placed the monies in the Special Revenue Fund.

Required Supplemental Information

Willard Public Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Originally Adopted Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Taxes	\$ 3,790,890	\$ 3,876,619	\$ 3,878,487	\$ 1,868
State sources	155,000	140,197	140,651	454
Penal fines	295,000	255,000	286,387	31,387
Fees and book fines	140,000	160,000	176,017	16,017
Interest	70,000	108,000	137,370	29,370
Local contributions and contracts	112,815	195,163	199,376	4,213
Total revenue	4,563,705	4,734,979	4,818,288	83,309
Expenditures				
Capital expenditures	118,000	247,000	231,721	15,279
Program services - Audiovisual, books, and periodicals	864,580	866,330	806,218	60,112
Support services - General administration:				
Personnel	3,267,834	3,215,135	3,172,794	42,341
Office supplies	104,000	114,000	102,214	11,786
Repairs and maintenance supplies	23,000	28,500	22,821	5,679
Purchased services	231,800	273,299	263,173	10,126
Communications	89,000	94,000	82,954	11,046
Insurance	50,251	40,634	38,878	1,756
Public utilities	103,500	144,100	135,584	8,516
Repairs and maintenance	171,200	181,200	167,573	13,627
Total support services - General administration	4,040,585	4,090,868	3,985,991	104,877
Total expenditures	5,023,165	5,204,198	5,023,930	180,268
Excess of Expenditures Over Revenue	(459,460)	(469,219)	(205,642)	263,577
Fund Balance - Beginning of year	3,179,058	3,179,058	3,179,058	-
Fund Balance - End of year	<u>\$ 2,719,598</u>	<u>\$ 2,709,839</u>	<u>\$ 2,973,416</u>	<u>\$ 263,577</u>

Willard Public Library

Required Supplemental Information Note to Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

Note - Budget Information

The annual budget is prepared by the Library director and adopted by the Library board of trustees; subsequent amendments are approved by the Library board of trustees. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The Endowment Fund did not adopt a budget since no expenditures were anticipated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (statement of revenue, expenditures, and changes in fund balance - budget and actual) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations of the General Fund budget, as adopted by the Library Board, is available at the Library for inspection. There were no significant budget overruns during the year ended June 30, 2006.